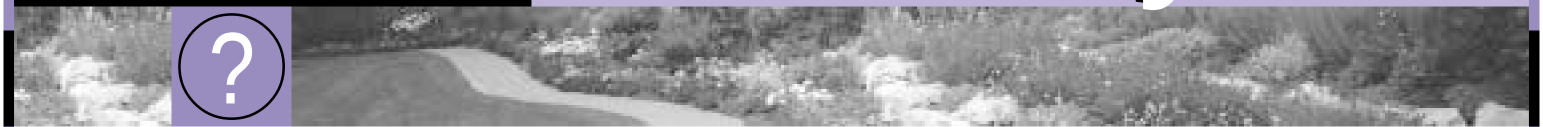
County of Orange
Defined Contribution Program

Pathways

WINTER 2004



Paving the Way to Bigger Retirement Savings

The key to successful retirement planning is managing your debt wisely.

When it comes to debt, what kind of shape are you in? Is your debt situation holding you back from increasing your retirement plan contribution? If so, you would be wise to get a handle on it. Until you do that, you're probably short-changing your retirement dreams in a big way.

One common measure for evaluating your debt situation is known as a "debt-to-income ratio." Banks use this ratio to decide whether or not to lend money or extend credit. The ratio is fairly easy to determine and it can be calculated on a monthly or annual basis.

Here's how it works: take your monthly debt payments (payments made to credit cards, car loans, etc.) and divide by your monthly income (before taxes). The resulting number, expressed as a percentage, is your monthly debt-to-income ratio.

What you need: checkbook register, copies of monthly bills, and most recent pay stub.

Debt-to-Income Ratio – Example

You pay out...	
Debt	**Monthly Payment**
Mortgage	$ 750
Car loan	$ 300
Visa	$ 150
Department Store	$ 75
Total Debt:	$ 1,275
And you take in...	
Annual gross salary	$ 35,000
Spouse's salary	$ 25,000
Alimony	0
Interest or dividends	0
Other	0
Total	$ 60,000
Divided by 12	÷ 12
Total Monthly Income	$ 5,000

Your monthly debt-to-income ratio is $1,275 ÷ $5,000 = .255 or **25.5%.**

Enter your own personal monthly debt-to-income ratio: _____%

Evaluating Your Debt-to-Income Ratio

15% or less. You are in excellent financial shape if you have a mortgage. You are in fair shape if you don't have a mortgage.

16% to 20%. Some financial advisors consider 20% to be at the top of a "healthy" range for your debt-to-income ratio (if you have a mortgage). You should try to reduce your non-housing debt to no more than 10% and ultimately to 0%.

21% to 35%. Most Americans are in this range. You may be finding that the majority of your income is going to pay off your debt. At this level, your main goal should be to reduce debt (even before investing any savings you may have).

36% to 50%. This is excessive. You most likely are sacrificing all your short and long-term financial goals by carrying this much debt. You need to begin making smarter spending choices and perhaps stop carrying your credit cards with you. You are likely to not be approved for additional loans, and may likely have trouble getting a mortgage loan.

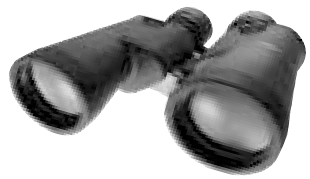
51% or more. You should seek the assistance of a credit counselor.

Resources for Help in Managing Debt

- National Center for Financial Education (www.ncfe.org)
- American Savings and Education Council (www.asec.org)
- Debt Counselors of America (www.dca.org)
- Quicken Personal Finance Software (www.quicken.com)
- Order a budgeting kit and review additional budgeting resources (www.moneytracker.com)

Retirement In Motion

A spotlight for participants approaching retirement.



Get Real

Back in 1970, the price of a candy bar was about 25 cents. In the 1980s, that same candy bar cost around 50 cents. Now, you can't get near a vending machine for much less than a dollar! That's known as the power of inflation, which is the gradual rise in consumer prices over time. Because of inflation, a dollar is worth more today than it will be in the future. Whether you are close to retirement or a long way off, inflation is something you definitely want to understand and take into consideration.

When it comes to investing, inflation is the difference between your actual rate of return and your **real rate of return**.

The Price Is Right

The Bureau of Labor Statistics Web site features an Inflation Calculator that can give you a good idea of how inflation will affect your future buying power. Go to: http://data.bls.gov/cgi-bin/cpicalc.pl

The fact is, most people are probably not earning as much as they think on stock funds and other investments. That's because they forget to factor inflation into the equation. You can determine your real rate of return by subtracting out the inflation rate from the rate of return you're earning. For example, if the actual rate of return on your stock fund is 10%, and the inflation rate is 4%, then your **real rate of return** is only 6%. Inflation has eaten away 4% of your investment income:

Figuring Your Real Rate of Return	
10%	Actual Return on Stock Fund
- 4%	Assumed Inflation Rate
=6%	**Real Rate of Return**

Everything you wanted to know about inflation – but were afraid to ask!

The federal government has several ways to measure inflation. The most common is the Consumer Price Index (CPI). The CPI measures the average change over time in the prices paid by urban consumers for what is called a "market basket" of consumer goods and services. The government announces the CPI every month.

The CPI measures how prices have changed since 1982-84. According to the Bureau of Labor Statistics, the CPI in September of 2003 was 185.2, which means that by the end of September of 2003, prices had increased by 85.2 percent over price levels set in the mid-1980s. In addition, the CPI in September of 2003 was 2.3% higher than the CPI for September of 2002. This represents a period of time when inflation was held relatively low compared to the historical average. Other periods, such as the 1970s, experienced double-digit inflation rates. *According to Ibbotson, inflation has averaged 3.1% from December 31, 1925 through December 31, 2002.

Inflation and your retirement income

A good way to measure the impact of inflation on your future purchasing power is to use the **Rule of 72**. Here's how it works: divide 72 by the inflation rate, and this will tell you how many years it will take for costs to double. For example, if the inflation rate is 4%, an item that costs $25 today will cost $50 in **18 years** (72 divided by 4 equals 18). Taking the Rule of 72 one step further, that means that the price of many things will most likely double during your 20+ years in retirement – including everyday "retired life" things such as groceries, cruises, a round of golf and gasoline.

You'll want to keep track of how inflation affects your Social Security and any pension income that you anticipate receiving. The annual Social Security Cost of Living Adjustment (COLA) will help your benefits keep pace with inflation. But pension benefits are not usually adjusted for inflation.

Since most people can expect to spend 20 years or more in retirement, you should consider an investment strategy that will help you stay ahead of inflation during this life stage. While past performance is not a guarantee of future results, you may want to consider investments such as stocks that have a history of beating inflation over the long term. In addition, inflation-indexed Treasury Securities[1] may be a sensible alternative. Inflation-indexed Series I Savings Bonds from the U.S. Treasury are guaranteed to provide returns over and above the rate of inflation for up to 30 years. Be sure to consult with a financial advisor as you begin to develop a post-retirement investment strategy.

*Source: Ibbotson Association, March 2003

[1]Government bonds and T-bills are guaranteed as to timely payment of principal and interest if held to maturity.

ATTEND A SEMINAR TO EXPAND YOUR FINANCIAL KNOWLEDGE

Upcoming Seminar

Great West Retirement Services[SM] and your County of Orange Defined Contribution Program offer a variety of educational seminars on financial topics throughout the year. They are meant to provide you with a broad-based understanding of your plan and increase your knowledge of investment terms and concepts from the most basic to quite advanced. They also provide you with the necessary tools to manage your account in a manner which promotes long-term financial security. This quarter will feature a brand new seminar — for a current schedule or directions, log on to **www.countyoforangedcplan.com** and click on the seminar link. During February and March the following seminar will be offered:

Understanding your Investment Options

Date/Time	Location
Tues, Feb 10 12 - 1 pm	PFRD 300 N. Flower Room B-10 Santa Ana
Wed, Feb 11 12 - 1 pm	SSA ARC 3320 E. La Palma Ave. Room B-480 Anaheim
Fri, Feb 13 11:30 - 12:30 pm 12:30 - 1:30 pm	West Justice Center 8141 13th St. Jury Assembly Room Westminster
Tues, Feb 17 12 - 1 pm	County Executive Office Hall of Administration 10 Civic Center Plaza Room 214-216 Santa Ana

Date/Time	Location
Wed, Feb 25 12 - 1 pm	John Wayne Airport 3160 Airway Ave. Commission Room Costa Mesa
Tues, Mar 2 12 - 1 pm	County Executive Office Hall of Administration 10 Civic Center Plaza Room 214-216 Santa Ana
Thur, Mar 4	County Executive Office Purchasing 1300 S. Grand Ave. Bldg A, Conf Room A Santa Ana
Tues, Mar 16 12 - 1 pm	County Executive Office Hall of Administration 10 Civic Center Plaza Room 214-216 Santa Ana

New Web site address for the Defined Contribution Program

The Defined Contribution Program has a new web address — **www.countyoforangedcplan.com**. Nothing else has changed except the address used to access the Program Web site. The Web site remains the place to find Program account information and retirement planning tools such as:

- **DreamTracker[SM]** Estimate your retirement savings nest egg and analyze whether you are on track to meet your retirement income needs.
- **College Planner** Plan for your child's college tuition.
- **Paycheck Comparison** View the effects of pre-tax retirement plan contributions on your take-home pay.
- **Loan Calculator** Analyze general loan payment scenarios.
- **Easy Account Access*** Detailed Plan and account information and the flexibility to make changes is available online or through KeyTalk®, the automated telephone response system.

Mutual Fund Investigations Raise Concerns

The headlines about mutual fund investigations have been appearing almost daily. Federal and state regulatory agencies are investigating whether improper trading practices occurred at a number of mutual fund companies. These practices may have given certain fund shareholders unfair advantages over others.

It's too early to tell for sure if individual shareholders actually lost money due to these activities. But, it's never too early to make sure that you have the information you need to make appropriate decisions about your investments.

What are the issues?

Investigators are attempting to determine if "market timing" and "late trading" have occurred. "Market timers" typically try to execute rapid in/out trades to take advantage of price differences between domestic and international markets.

Most fund companies have policies in place to prevent this type of activity. Although not illegal, it can harm long term investors, if managers have to maintain higher cash balances to facilitate these trades and are not fully invested in stocks.

"Late trading" involves the practice by the mutual fund company of accepting and making trades of shares after the market closes (generally 4:00 p.m., Eastern time) for orders based on that day's net asset value. This preferential treatment for certain investors can harm the interests of the other shareholders in the fund and is an unfair and illegal practice.

What should I do?

Making decisions based on your own assessment of the facts and your financial goals for retirement should continue to be the foundation of your approach to retirement planning. You should continue to consider factors such as:

- The fund's historical performance compared to its peers;
- Other funds available to you that have similar investment objectives;
- The diversification of your portfolio;
- Investment fees; and,
- How long the current fund manager has been in place.

You might also ask yourself this question: If the fund is under investigation for alleged improper trading practices, does that affect my confidence in the ability of that fund manager or mutual fund company to serve my best interests in the future?

In financial planning for retirement, be sure to take the time to make thoughtful decisions based on the factual information available to you, not just today's headlines. As a side note, you should be aware that there is no evidence of involvement to any of the mutual fund issues noted above, for the Deferred Compensation Program core investment managers.

New 2004 Contribution Limits

Now you can contribute even more to your retirement Plan! You can contribute up to $13,000 on a pre-tax basis, and if you are over age 50, you may contribute up to $16,000.

Also, in 2004, there will be twenty-seven (27) pay periods. Please adjust your bi-weekly contributions accordingly.

Have Questions? Need Information?

Web site: www.countyoforangedcplan.com

KeyTalk®: Toll-free (866) 457-2254

Access to KeyTalk® and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/ maintenance, or other reasons.